

**FINANCIAL MANAGEMENT IN
HUNGARIAN CITIES:**

THE CASE OF SZENTES

Prepared for



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FINANCIAL MANAGEMENT IN HUNGARIAN CITIES:

THE CASE OF SZENTES

INTRODUCTION¹

The city of Szentes is located on the left bank of river Tisza in the middle of the Great Plain, in the northern Csongrád county. Its unique network of streets and set of institutions, developed over several centuries, make the city special among the Great Plain cities. Szentes started to grow rapidly in the late nineteenth century after it was appointed county seat, triggering urban development. In the past decade, although the population of the city has not grown, its infrastructure has been considerably improved.

The current population of Szentes is 32,752 (see Table 1), approximately the same as Orosháza, providing a good basis for making a few comparisons between the two cities. Considering the size of the budget, however, the two cities are significantly different. This is mainly due to the fact that Orosháza continues to manage the hospital and the old people's home, while Szentes has transferred these institutions to the county government. The total budget per capita in Szentes, however, is nearest to the figure in Tatabánya. In terms of Personal Income Tax per capita, an indicator of the city's wealth, Szentes falls somewhere in the middle, behind Szolnok and Nagykanizsa, where the size of the budget is also larger, but far ahead of Püspökladány and roughly at the same level as Orosháza and Tatabánya.

Table 1
The population and total budget of the cities included in the study

	Szentes	Orosháza	Tatabánya	Nagykanizsa	Szolnok	Püspökladány
Population in 1996	32,752	32,944	72,207	52,574	78,511	16,397
Total of the 1998 Budget	2,949,261	4,239,395	6,786,435	6,846,386	9,605,714	1,268,746
Total per Capita Budget	90.0	128.7	93.9	130.2	122.3	77.4
PIT thousand HUF per	8.2	7.7	7.8	11.7	12.6	5.2



Economy

The industry in the city is based on traditional agricultural production. However, in the past 25 years electro-mechanics, electronics, timber and metal industries have appeared. The majority of the economic enterprises are not state-owned any more, some having been purchased by multinational corporations during the past few years.

The most important companies in the city are:

Hungerit Group—poultry processing
Kontavill Co.—electric supplies
Kontaset Ltd.—electronic supplies
Clothes factory—work clothes and overcoats
Iron works Ltds.—high pressure containers
Árpád cooperative—thermal water based vegetable growing

Thermal water based vegetable growing is very popular in the city due to its favorable geological situation. Many households make either all or a large part of their living out of it.

The city municipal companies

Name	Municipal Ownership Share (Percent)
Municipal Services Ltd.	100
Szentesvíz Water Management Ltd.	100
Library, Public Partnership	100
Radio Szentes, Public Partnership	100

Other businesses in which the municipality has a considerable share

Name	Municipal Share (Percent)
Csongrád County Public Sanitation Ltd.	17.7
Utility and Civil Engineering Ltd.	40
Szentes Planning Ltd.	40
Csongrád County Undertaking Ltd.	10.4

Infrastructure

In Szentes 95 percent of the roads have solid surfaces; 50 percent of the homes are connected to the sewage system; and 8,000 out of 13,000 homes are equipped with

telephone service. Following are a few more statistics on infrastructure:

Statistics on infrastructure	
Number of households connected to the system of drinking water	12,197
Number of households connected to the sewage system	4,364
Number of households receiving with garbage collection	10,706
Number of households connected to the gas network	9,010
Total length of roads in residential area owned by the municipality (km)	137.3
Total green areas (in thousand m ²)	1,352
Public parks	1,007
Forests for the public benefit	345
Other areas in public care	307
Length of the drinking water system (km)	135.1
Public water taps	33
Length of covered public sewage pipes (km)	95
Sewage water treated (m ³ /day)	4,712
Capacity for producing drinking water (m ³ /day)	14,224

In the south-eastern part of the city there is an area of 25 hectares for green field investments. This area is isolated from residential zones and is fully serviced with industrial railway siding, roads, water, electricity, gas, sewage and telecommunication.

The city has one hospital with 550 beds. Some of the thermal springs provide heating in housing estates.

Other Features

A great asset to the city's image is the title of *National Sports City of the Hungarian Republic*, granted by the President of the National Sports Agency. This unique recognition is a symbol of the lively sports life in the city: in addition to mass sport activities and physical education in school curricula, ten percent of the population are registered members of sport clubs.

MUNICIPAL SERVICES: SERVICE PROVISION AND FINANCING

In the study of municipal financial management, we will first examine the services provided by the municipality; these shape the community and determine revenues and expenses (generally operation costs represent a large percentage of the budget). They also

often affect investment policies and regional cooperation efforts. Services in Szentes are provided by institutions listed in Appendix 2, by the mayor's office as well as by municipally owned.

In this chapter the most important services and their financing will be reviewed. Recent changes in service provision will be discussed together with some of the problems that arise when the central requirements for municipal service provision do not correspond with local financial capacities concerning both the allocation and financing of services.

Service Provision Regulations

The focus of the Szentes community development program is to make the city *a sports and tourist center*. Both these aspects are taken care of by the Sports and Tourism Center, the former Sports Center. Its responsibilities are to operate institutions and implement the tourism concept adopted in late 1997. The Center has a dynamic, well-qualified, and committed director. His tasks are to coordinate activities and secure grants from central funds for tourism. The city plans to develop tourism by two tools: regional cooperation and associations (see section on regional cooperation) and sister city relations (so far the city has sister city agreements with German, Spanish, Austrian and Yugoslavian cities).

Although sports and tourism are a priority for the city, they make up only about 4 percent of the budget. As in the other cities in our study, the majority of the expenses are spent on mandatory services and on a couple of non-mandatory but costly ones. (*Mandatory and non-mandatory services are listed in Appendix 1.*)

According to the finance manager of the city, it is extremely difficult to identify mandatory and non-mandatory services solely on the basis of the Local Government Act since municipal responsibilities are regulated by several acts and decrees, such as the Budget Law (which regulates procedures), the Bankruptcy Act and sectoral laws (welfare, education, sports, public employment, fire prevention). Central laws tend to provide a framework only; most of them are supplemented by a local decree.

The following factors make the provision of municipal services difficult in Szentes (though these problems are not limited to Szentes):

Sectoral laws are not always in harmony with the Local Government Act.

The system is not transparent as each service defined by the Local Government Act is also governed by sectoral law requirements.



The Local Government Act often does not regulate the whole set of services, only part of them, and neither the Act nor sectoral laws regulate the quality of services (e.g., with regard to public sanitation, the Act requires the municipality “to collect and remove communal solid waste”, however, it does not say how often, or where).

Agreement between the sectoral requirements and financing options is not guaranteed.

The set of services to be provided changes year by year, affecting finances and institutional requirements (provision of services).

One illustration are the changes in *welfare service responsibilities* since 1992. In 1992 the local government provided what was then required by the law, namely:

- One-time aid for children
- Regular education aid for children
- One-time aid for adults
- Regular welfare aid for adults
- Housing rent supplement
- Medicine provision

However, in 1993 with the new Social Act, several new services were introduced:

- Child education benefit
- Income supplement benefit
- Housing assistance
- Nursing fee
- Funeral aid
- Public funeral

These welfare payments were defined in terms of the current minimum pension. Thus in 1993, there was a substantial growth in welfare payments, raised every year as the minimum pension increased.

Since 1993 the welfare services system has been expanding:

In 1995 energy price subsidy for families was introduced.

In 1996 household heating oil was subsidized for the needy.



In 1997 the regular welfare aid together with regular welfare aid for active age persons were introduced; besides, the heating assistance subsidy was changed, making housing assistance costs soar. In 1997, with the introduction of the Child Protection Act requiring one-time and regular child protection benefits, the costs of child-related payments sharply increased.

The expanding scope of social services bring with them financial difficulties as central transfers cover only some (50-70 percent) of the costs of the many new services. Therefore, as the set of services expands, the municipally borne share of the costs increases at the same time.

Szentes officials think that strong central regulation encroaches on local autonomy. It would be very difficult to find a municipal service that is not controlled by central regulations. Any step the local government wishes to take must be checked to make sure that it is allowed by law.

Despite these difficulties, the city undertakes non-mandatory services as well, out of strategic or prestige based considerations. The city is not obliged to perform these services, but they can add to the city's image. For instance, the idea of transferring the high school into county ownership was raised; however, it was rejected, as the city regards it extremely important to have its own high school and ensure secondary education

The Local Government Act allows municipalities to transfer certain non-mandatory services to the county. There are two ways to do so: transferring only the service or the service together with the ownership rights. The Act leaves this issue unclear, which may lead to serious conflicts in certain cases (for instance renovation). Szentes has transferred the following services so far:

Operating the special education school: the county built a children's home which includes a special education school; so it was reasonable to transfer operation, demolish the old school building and retain the land.

Operation of the old people's home: the transfer was justified on the grounds that the majority of residents in the home were not from Szentes. The city retained ownership rights.

Operation of the hospital: in this case renovation, for example, is a serious problem. The county does not wish to pay for hospital developments, only for the costs of renovation because it does not own the building; the city, however, has limited

financial resources and cannot afford to solve the problem.

Changes in Institutions and Service Provision in the Past 5 Years

As described in the previous chapter, in the past five years the financial management of service provision has been continuously reorganized and restructured. In 1992 the municipality identified the possibilities and limits of local governance, then defined its responsibilities and reviewed mandatory and non-mandatory services from the point of view of financial feasibility. The process resulted in three major actions that affected the operating budget:

- Transfer of service (hospital)

- Reorganization of institutions (cutting back nursery capacity).

- Ending municipal service (for instance, the office that used to organize family events and celebrations was abolished)

In 1993 restructuring continued. The City Administration Office, responsible for city management and sports, was abolished and two independent institutions, the City Management Office and the Sports Center, were set up by the City Council in order to improve the quality of services through specialized institutions.

In 1994 the Nursery Administration was abolished and two independent institutions, the Basic Health Care Agency and the Szentes City Nursery, were set up. At the same time, nursery capacity was reduced and one underused nursery with a capacity of 60 children was closed down by the City Council.

In the same year two non-mandatory services, a home for the mentally ill and a special education school, were transferred to the county. In 1995 several new services were introduced:

- New services required by the Social Act had to be created (for instance, a Crisis Home).

- Preparations for the Fire Department to become an independent budgetary institution took place after it had been taken over by the municipality.

- The system of Area Supervisors, which employs community scheme workers, was introduced on September 1, in order to improve the efficiency of communal services.



Radio Szentes began operation². It is a partly autonomous institution financed from the municipal budget. (This is again a service undertaken by the municipality voluntarily, which of course serves municipal interests very well for it is a better tool to provide citizens with information than the local press. To our knowledge, not many communities of Szentes' size maintain a public radio station).

In February 1995 the local minority council was dissolved.

In 1996, the following changes in service provision occurred:

The homeless shelter began operation with a capacity of 32 beds.

A day warming-shelter was created.

C Services of the Basic Health Care institution were cut back; since then medical night service has been provided by the Ambulance Service on the basis of an agreement.

New trades were introduced in the curriculum of Bartha Gardening Vocational School (bedding plant gardening, general gardening and poultry processing).

The Sports Hall was opened.

At the beginning of the year the Fire Department became an autonomous municipal budgetary institution.

In 1997 the following changes took place in the provision of services and in the institutional structure:

As part of the community jobs program, the City Management employs 65-70 unemployed in the summertime to clean precipitation water pipes. The program is supported centrally.

The task of caring for the homeless was severed from the Family Center and the Assistance Center for Homeless was set up as a new, partly autonomous institution (the two institutions were split in order to make functions more transparent).

A soup kitchen was established in the Homeless Shelter.

² The radio station was strengthened on 1 January 1998, when it became a Public Partnership (*Kht.*)

As of July 1, the hospital started to provide mother, child and baby protection services (service transfer).

The pupils' hostel of Bartha Gardening vocational school temporarily closed from September, due to the low rate of occupancy (60 beds).

Due to new services introduced, the Sports Center was reorganized and the Sports and Tourism Center was set up (new tourism-related activities were introduced).

As of November 1, the Public Guardianship Authority was set up within the Mayor's Office for the city and the surrounding communities (the majority of the functions was delegated from the villages to cities and only a few are retained by the local notary).

As a consequence of the modifications to the Social Act, namely the introduction of regular welfare aid for active age people as well as heating assistance, more people receive some kind of regular welfare payment.

In the area of education, preparations were made to introduce the National Core Curriculum.

Due to a new regulation, as of January 1, 1998, an organization set up within the Szentes Mayor's Office serves as the constructions authority for communities in the catchment area.

In conclusion, we can see that the scope of services to be provided in Szentes is expanding year by year (this is especially true concerning the welfare functions), while the central transfers provided for the provision are decreasing. The consequences of this tendency can be seen in two areas: in that of financing (which will be discussed in the following chapter) and in that of the system of institutions. The expansion of the services and the decreasing amount of funds available made it necessary to carry out certain changes in the institutional network inherited from the previous system. The most important measures taken by the municipality are the following:

Transfer of services to the county (hospital, old people's home, special education school).

Restructuring institutions in order to separate functions clearly (city management,

sports and tourism).

Restructuring institutions by reducing the number of places (day nursery).

Abolishing functions (the agency for organizing family events, nursery, students' hostel).

Creating new institutions for the new services (crisis home, fire department, homeless people's home).

Reallocating functions between the different institutions (e.g., Mother and child protection).

The above changes indicate that the city is trying to adopt to the changing circumstances by organizing the system of institutions more rationally.

As regards the relations between the central and the local level, we can see that although there are many mandatory functions prescribed at the central level, the city still has a certain amount of freedom, within which it can take steps according to its own strategy. This is evidenced by the opening of the new sports hall in 1996 and the restoration and reopening of the synagogue as a cultural and library facility in 1998.

The Financing of Municipal Services

As in other communities, in Szentes both mandatory and non-mandatory services are financed from shared revenues, normative and other central transfers and, at an increasing rate, from local revenues (mainly business tax).

Normative transfers. Generally, various normatives cover service costs to different extents, but on the whole they are decreasing, as illustrated by the following table:

Table 2
The percentage of expenditures covered by normative transfers (by sector)

Sector	1993	1994	1995	1996	1997	1998
Education	68.4	50.3	56.5	51.4	51.6	54.2
Culture	21.3	16.2	16.5	—	5.3	26.2
Sports	5.1	4.3	4.2	—	—	—
Social	50.4	47.1	40.8	55.7	44.3	37.1

Other	46.0	39.9	39.4	17.4	4.8	12.3
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If only the change in the sum of the normative transfers is considered, there appears to be an increase. The table above, however, also shows when the normative transfers are compared to the costs of service provision, on the whole we can see a decrease. As in most of the other communities, normative transfers cover the highest percentage of the costs in education. It is interesting to note that in the public welfare (social) sector the scope of functions to be performed increases each year, as we have seen in the previous section, while the percentage of the costs financed with normative transfers is surprisingly low, only 37 percent.

There are several financial management difficulties involved with normatives. First, the formula of calculating normative transfers changes too often. Normatives are not transferred by institutions but by types of services (e.g., according to the number of children), so the municipality has to calculate how much is allotted to each of the institutions according to the formulas. This, however, is a complicated and time consuming task, and the social normative, for example, cannot be broken down by institutions. Szentes officials say that this makes financial management extremely difficult. Because normatives are not attached to functions or specific institutions, municipal officials find that they hinder making financial regulations more transparent. The fact that the content of normative transfers is unclear has consequences at several levels:

First, what politicians hear at various discussions at the national level is only how much the amount of the normative transfers has been increased year by year, without mention of the fact that the set of services has been expanded, too. They request the mayor's office to show the increase broken down by institutions.

In addition, the institutions themselves are eager to know how much they receive (often overestimating the amounts).

The local government itself should know the normative shares in the financing of various institutions to be better equipped with arguments at the discussions with the institution heads and the City Council on the one hand and to better see efficiency and capacity problems through differences in the shares of normatives received by similar institutions (e.g., primary schools) on the other hand.

The Szentes nursery is an excellent illustration of why it is important to break down normatives by institutions. For years the City Council had been reluctant to vote for closing down one of the nurseries, although it had been very much underused. When normative



transfers were introduced, the council could see that the small number of children and high permanent costs drain the municipal budget to an unproportional extent compared to the costs of the other nursery with a better rate of occupancy and voted for closing the nursery down.

The decrease in the number of children entails smaller normative transfers to institutions, which also caused a problem in Szentes. To take care of financing difficulties regarding its only remaining nursery school, Szentes opted for expanding services rather than reducing staff or cutting back on municipal expense estimates. Now, in order to make good use of existing capacities, the nursery staff provides home baby sitting and day care for nursery school, kindergarten and primary school age children on the premises of the nursery (this is very popular during school holidays). There is a modest service fee (400 HUF/child/day for home baby sitting and 200 HUF for day care).

Currently normatives cover 32-33 percent of the operation costs (compared to 53 percent in 1993 and over 40 percent in 1994 and 1995). Normatives, however, cover very different percentages of costs in the various sectors and in various institutions within one sector. Table 2 shows that normatives cover the highest percentage of the costs in education. Within this sector, the grammar school, the music school and the secondary vocational school are on the top of the list. Generally, the more complex institutional activities are, the more its operation costs are covered by central normative transfers (because for complex activities cities receive several types of normative transfers).

Table 3 shows the resource structure of various types of education institutions. (*A more detailed version broken down by individual institutions is in Appendix 3.*)

Table 3
Resource structure of educational institutions (HUF million)

	Expenditures	Own revenue	Normative (As a percentage of costs)	Difference (provided by the municipality)
Kindergartens	172	6	69 (40%)	97
Primary schools	327	11	155 (47%)	161
Music school	26	2	14 (54%)	10
Grammar school	71	4	43 (61%)	24
Secondary vocational	307	76	165 (53%)	66

Total	902	100	447 (49.5%)	355
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Of all municipal own revenues, amounting to HUF 1.081 billion³, 355 million (33 percent) is spent on education. The proportion is fairly high, though lower than in other communities in our study (for instance, in Püspökladány it is 45 percent). As there is a supposed interrelation between relatively low percentage of education costs in own resources and a low wages/operation costs ratio, it has to be noted that the wages/operation costs ratio is the lowest in Szentes of the six cities in our research and shows a decreasing trend over the years. (See Table 4).

Table 4
Wages/operation cost ratio in the six cities

Wage costs/	Orosháza	Püspökladány	Szolnok	Szentes	Tatabánya	Nagykanizsa
1993	57.3146	59.7292	59.0536	53.9914	63.8688	58.1304
1994	59.7775	62.6992	62.9533	53.5338	66.8976	59.3451
1995	60.8828	69.7297	63.3261	54.2854	61.6301	57.1198
1996	60.6355	66.9682	57.2456	50.4067	60.3638	59.1359
1997	62.9462	73.9176	58.3567	52.1096	61.6716	62.2781

As the above table shows, the proportion of wage/operation costs is the lowest in Szentes, while it is the highest in Püspökladány. We have two hypotheses to explain the differences:

The first hypothesis is that the wage and material costs are roughly the same in the two cities, but a greater emphasis is laid on education in Püspökladány and they want to perform this function at a higher level.

The second hypothesis is that in Püspökladány the proportion of wage costs compared to material costs is higher than in Szentes (stronger teacher lobby, higher municipality wage contributions, etc.)

As it has been very important for Szentes to receive ÖNHIK (Support for municipalities in disadvantageous position owing to non-own fault) and therefore the wages of teachers are

³ The amount is calculated from data in Appendix 4: From "Total municipal own revenues" budget subsidies (III/2) were deducted to make data comparable.

kept at a low level (this being one of the criteria), we think that the second hypothesis is the more probable. If this is really the case, we can conclude that ÖNHIKI, although it may result in distortions in the system of subsidies, can help to strengthen financial discipline.

Normatives based on the number of users ensure some elasticity for the municipality. At the beginning of the year the municipality may report more users than the actual number and get more resources but they must be reimbursed at the end of the year. However, if the reported number is over 5 percent more than the actual number, the municipality also has to pay interest. Systematically over-reporting municipalities may be subject to investigation by the State Audit Agency.

Centralized items. Centralized items are transfers that can be requested for specific services if a certain set of criteria are met, although some of them are only available afterwards. As these amounts are considerable, (for example, the child protection allowance, support for sectoral developments, and subsidies for infrastructure developments for households), the fact that accounting takes place only afterwards seriously distorts budget planning.

To give an example: in 1996, six percent of the total revenues came from centralized items, which is nearly as much as the amount of local taxes (6.7 percent). Appendix 6 lists centralized items requested in recent years.

Shared revenues. As in all the other communities, in Szentes one of the largest items in the operation revenues is shared PIT (personal income tax). In this section all shared revenues are listed together (i.e., vehicle tax is included).

Table 5
Shared revenues (in HUF thousand)

	1993	1994	1995	1996	1997	1998
PIT (according to origin)	129,388	157,422	185,173	187,029	200,797	212,478
PIT for community operations				58,157	60,659	61,587
PIT for social and child welfare services						128,866
PIT for income supplement for the unemployed			29,517			
PIT supplement	20,000	21,696	33,783	25,970	84,837	110,246
PIT in total	149,388	179,118	148,473	271,156	617,449	513,177
Vehicle tax (50 percent)	8,480	8,377	9,716	20,437	21,312	25,000

Although, as the table shows, PIT revenues have grown over the years, growth lags behind the inflation rate. Interestingly enough, the PIT supplement in 1998 was nearly 52 percent of reallocated PIT.

Central Grants

Municipalities have to design their strategy of applying for central grants carefully. In Szentes it is becoming more and more essential to apply for the ÖNHIKI grant (Support for municipalities in disadvantageous position owing to non-own fault). These grants are substantial amounts; in 1997 the grant was nearly as much as all centralized items together. Nevertheless, the grant costs municipalities some money for they have to meet a set of criteria, which are sometimes expensive and may be unfavorable concerning the dynamic development of the city (for example, they must not have deposits over 30 days, they have to continuously monitor their resources, they must not take out investment loans, they may receive only a limited amount of targeted subsidies and do capital projects only within certain limits). On the other hand, these grants may improve the efficiency of operations. The ÖNHIKI grant criteria require that institutions meet strict per unit indices and restrict wage raises. At the macro level, the grant may distort municipal behavior, yet at the micro level it may create results even in relatively better-off communities as they work to meet the criteria in order to acquire additional resources. In some cases requirements are met by juggling with the budget. Szentes has been making ever greater efforts to write up applications for grants offered by various agencies for various purposes. People in Szentes think, however, that mobilizing these resources efficiently, would take one staff person to monitor and register grant announcements etc. . Nevertheless, there is a trend in the municipality to obtain as many of these resources as possible.

The Municipal Response to the Increasing Financial Problems

Generally, municipalities react very resourcefully and flexibly to growing financial problems, though some reactions are awkward and not very clever. A widespread tool is to contract out services by tender or reorganize or close down institutions. As an illustration, we provide four little stories from Szentes.

In 1990 the local government inherited the city movie theater and provided HUF 3 to 800 thousand in support annually. In 1998 the local government put the operation of the movie out to tender. In this way the local government may collect at least HUF 1.5 million annually from an institution which earlier was an expense. The review procedure of the tender is as follows:

The priority requirement was that it stay a movie theater and that the citizens of Szentes could afford the ticket price. Two tenderers turned up: the current manager of the movie theater (a municipal employee) who offered the minimal rent required in the tender; the other was a businessman from Hódmezővásárhely, who offered to pay three times as much in rent, but proposed higher ticket prices than those offered by the Szentes tenderer. The Review Committee discussions centered around topics such as the fact that one tenderer was a locally known person, that bigger business might offer bigger possibilities, prices and capacity use, and expected revenues for the municipality (guarantees that rents will be paid, that rents will be adjusted by the inflation rate). Besides objective arguments, personal relationships and interests played a role as well. It is noteworthy that ticket prices and capacity use of movies of similar communities were discussed at the committee meetings.

The delicate point is that while the City Council put an emphasis on affordable tickets, finally that tenderer who offered higher rent won, which will raise ticket prices many times over.

Just as in other cities, the capacities of nursery schools, kindergartens and schools have been increasingly underused. Closing down institutions, however, is a devastating political issue and it is practically impossible to get the City Council vote for a close down. After a failed attempt, the financial management simply left one underused nursery out of the budget, which, left without any financing, closed down. (The budget adopted included only one nursery school.)

To make institution operations more efficient, Szentes has embarked on providing auxiliary services. First of all, expanding the range of services in secondary schools

has improved efficiency.

The Elderly Center put the provision of meals out to a tender which was won by another municipal institution equipped with a kitchen. The municipality should have known that one of its institutions was capable of providing the meals in which case no tender should have been necessary. Now the tenderer institution has additional resources but previously had the local government finance a surplus capacity. It has to be noted that municipal institutions are not allowed to participate in such tenders.

FINANCIAL MANAGEMENT

Today local governments possess considerable assets and large revenues which entail huge responsibilities. Citizens, tax paying businesses and financial institutions demand transparent financial management and responsible reporting and accountability.

Local governments tend to differ very much in terms of financial management because their unique conditions, requirements and management attitudes lead to different strategies.

In this section the local revenue policy in Szentes will be discussed with a special emphasis on local taxes. Financial management techniques as well as auditing and reporting systems will be reviewed.

Local Revenues

As mentioned in the section on municipal services, services are financed from central transfers, but just as importantly, from local revenues. However, local resources also finance other kinds of municipal activities (renovations, investments). A local revenue policy thus is a tool to create necessary resources to finance the most important municipal activities or else exploit potential revenue resources. The two strategies have different budgetary and political prices: the latter is financial management in its true sense, freer and more flexible, though it involves greater political risks. In the first case additional revenues are sought out of some financial constraint, where action is rather a forced choice. Szentes is midway between the two: it is not a municipal "business", but is always one step ahead of the crisis. The city does not take great political risks and pursues a relatively solid, comfortable financial policy. With its current revenue structure, the city still has unused reserves (rationalizing institutions, levying local taxes) to be mobilized if needed.

By studying central transfers to the city it can be established that their growth rate is lower than necessary to finance growing services. The city must involve more and more of own

resources. (See Table 6)

Table 6
Changes in the proportion of central transfers and own revenues (HUF thousand)

	1993	1994	1995	1996	1997 (expected)	1998 (estimate)
Central transfers	857,910	936,674	1,097,060	1,209,728	1,282,591	1,413,660
Own revenues ⁴	568,858	654,927	838,256	1,601,700	1,843,514	1,535,601

As the table shows, since 1996 own revenues have exceeded central transfers. As the municipality has collected fairly good local taxes and privatization revenues since 1996, it has not had liquidity problems and has not taken out loans to finance operational deficit. From this year on, however, privatization revenues will become scarce and local tax collections will not increase, although rates have been raised due to new legislation, (see the section on local taxes).

Local taxes include communal, tourism and business tax; the city has to spend the latter on operations. Table 7 presents municipal revenues between 1993 and 1998.

Table 7
Own revenues 1993-1998 (HUF thousand)

	1993	1994	1995	1996	1997 (expected)	1998 (estimate)
Local taxes	599,85	95,826	135,541	214,523	319,695	295,640
Institutional revenues	3,504,34	369,281	382,204	463,511	412,771	436,333
Investment and capital revenues	19,574	10,704	14,445	18,436	115,590	309,440
Assets revenues	57,402	112,839	187,019	759,590	560,291	102,536
Loans, resource deficit	10,874				31,459	233,007
Other	62,589	66,277	119,047	145,640	304,998	158,634

Source: Szentes 1998 budget

The table shows that revenues from basic activities of institutions and other revenues increased by 5.4 percent last year. Investment and capital revenues, mostly from municipal assets, have dropped as the privatization process is practically over and only minimal revenue creating assets have been retained by the local government. The role of local taxes in local revenues has greatly changed in recent years.

⁴ Own revenues include local taxes, institutional revenues, financial assets taken over for the purpose of accumulation, revenues from the utilization of assets, loans and other types of own revenues.

Local tax policy

In the local tax policy of a community, the following elements have to be studied: what are the types of taxes, who pays them, what they are spent on, and what the techniques are of introducing, collecting and controlling the various types of taxes.

Table 8
Per capita local tax revenue (HUF million)

	1993	1994	1995	1996	1997
Nagykanizsa	2,390	3,349	6,347	8,470	10,718
Orosháza	947	1,004	6,048	11,876	15,691
Püspökladány	176	153	1,056	2,340	2,295
Szentes	1,598	2,709	4,232	6,097	9,253
Szolnok	4,046	3,493	5,408	8,974	11,680
Tatabánya	2,235	2,680	2,814	3,913	5,434
Country Average	2,628	3,308	4,526	7,913	10,939
Country Total without Budapest	1,738	2,236	3,127	5,513	

According to the table the volume of local tax revenues is increasing year by year and though it is less than the Hungarian average, it is more than the national average without Budapest. Among the other cities in our study, Szentes is solidly in the middle. Currently there are three types of local taxes in Szentes:

Business tax, introduced March 1, 1993

Personal communal tax, introduced January 1, 1996

Tourism tax, introduced January 1, 1998

Most of the local tax revenues come from business tax (in 1996 it amounted to 90 percent of all the local taxes). From 1993 to 1995 the local business tax rate was six per mill of taxable income (the statutory ceiling was 8 per mill) and was raised to 8 per mill in 1996 (while the ceiling was raised to 1.2 percent).

In 1996 tax reliefs were introduced: various sales income brackets were subject to different tax rates. Businesses with incomes from HUF 750 thousand to 2 million without VAT were granted a 25 percent tax exemption while those with an income from 2 million to 5 million without VAT were granted a 12.5 percent tax exemption.

In 1997 the general tax rate remained 8 per mill but on certain activities was 1.2



percent (banking, finance and insurance services, gambling and selling products subject to excise tax).

From 1997, businesses paying business tax may direct 25 percent of their payments to one or several municipal funds identified by the City Council. These funds are: Economic Development Fund, Institutional Development Fund, Sports Fund, City-scaping Fund, and the Community Education Fund. In 1998 the tax ceiling is 1.2 percent.

In 1998 there was a change in the Local Tax act, and consequently local decrees have been modified. One change is that 33 percent of supplies costs is deductible from the taxable income (sales revenues).

As a consequence, the tax rate was raised (the statutory ceiling now is 1.4 percent). At the same time, the City Council suggested regressive tax rates to attract big businesses and help local businesses grow⁵.

In 1998 the tax rates are the following: 1.1 percent on taxable income up to HUF 700 million (net income from sales without VAT), 1 percent on the portion between HUF 700 million and 1.5 billion and 0.9 percent on the portion over 1.5 billion.

On all income from banking, finance and insurance services, gambling and selling products subject to excise tax the tax rate is 1.4 percent.

An important change in 1998 is that incomes up to HUF 2 million, formerly HUF 750 thousand are exempted from taxation.

The personal communal tax rate, HUF 2000 (the statutory ceiling is HUF 12 thousand), has not changed since 1996.

Since 1996 the vehicle tax has been regulated by law and local governments may set the amount in the range of HUF 400 to 800. The vehicle tax in Szentes was HUF 400 per 100kg in 1996 and 1997; in 1998, it was raised to HUF 500 per 100 kg.

According to the local tax decree, personal communal tax revenues only can be spent on infrastructure and the local government's share of vehicle tax revenues on road construction. Business tax revenues are spent on operation and improvements. The process of introducing or modifying local taxes

⁵ Though economically this is a sound argument, in Hungary many big businesses sit in City Councils, having a vested interest in this kind of taxation.

As a first step, the City Council was informed about the possibilities of introducing the various kinds of local taxes. Then impact assessments related to several kinds of local taxes (business communal tax, business tax, building tax, personal communal tax) were presented. The City Council picked the business tax and requested the financial, legal and taxation departments to make a detailed study. Then the City Council discussed the study and decided to introduce the tax.

Currently, the City Council is presented information about local taxes when it discusses the annual budget concept to decide whether the operations of a particular type of tax should be changed, or a new type should be introduced (as it happened with the personal communal tax). When the Local Tax act is modified, usually the local decree is modified too.

First the impact assessment and calculations of a particular type of tax are presented to the City Council. If these are approved, the detailed regulation bill is submitted.

Tax collection. Taxes are primarily collected by way of tax payers' duly meeting their obligation. Sanctions for non-payment are: garnishment of benefits, pensions, confiscation of mobile assets (vehicles); in case of non-payment of vehicle tax, initiation of the procedure of withdrawing circulation license of the vehicle; with business tax, immediate collection invoice or, if it does not work, initiation of the procedure of withdrawing the business license. In case of a large amount of public debt, the tax payer's property can be mortgaged or a foreclosure request can be filed.

Administration. Citizens are informed about the creation or modification of the local tax decree through the following channels:

- The document is posted on the news board in the Mayor's Office
- The document is printed in full in the local newspaper
- On-going information in the local radio
- It is available in the city library

Tax payers are identified on the basis of their tax return. The local government mails a letter to those who have to pay some kind of tax, which includes the amount and a payment order (to be paid in cash at a post office or bank). The procedures are as follows:

Business tax. Entrepreneurs, when they receive their business license, have to register at the local government. This registration list is the basis for identifying business tax payers. The other source is the bulletin of the registration court, which is regularly checked against the list of the local government. Those who are missing from the local government's list are called



upon to register. Once a year the municipality requests the Tax Authority to provide information about the income of potential tax payers. This is data collection and control at once.

Communal tax. Basically, the local government relies on reporting by the tax payers themselves. In the 1960s, taxes on households were fully paid. The local government still has these data, which is used as base data. The municipality regularly requests the land registry and the municipal engineering department to provide their lists of permissions issued to owners of new housing.

Tourism tax. By October 1, 1997, everyone renting out accommodation for paying guests was requested to renew licenses at the administration department, the supervisory authority of the tourism industry. This list is the base record. The local government has a direct contact to IBUSZ (the major travel agency that operates a huge network of rent-out rooms for paying guests), and the department that issues accommodation licenses sends a copy of licenses to the tax department.

Checking. The tax department checks whether the tax was paid and the right amount was paid (based on the list from the Central Tax Authority). Like the Central Tax Authority, the tax department checks cash books and maintains computerized records on arrears. Clients are informed twice a year on deadlines and their tax balance.

Tax payment. Citizens pay their taxes on payment orders, and businesses on bank transfers.

Sanctioning. The first sanction on non-payment is levying a delay fine. If the tax is still not paid, wages or pensions can be garnished as allowed by the law. The next step is foreclosing or mortgaging property or withdrawing the business license (up to now this has practically never happened).

Constraints. According to the head of the tax department, the major constraints are low staff and computer capacity, which reduces operation efficiency and good checking. Further constraint are that there is no enforcement officer, the city administration office does not help and the tax department has no contact with tax departments of other municipalities to regularly share information. Each local government has to develop its own collection and checking techniques. Furthermore, there is no medium level administration to coordinate (for instance, at the county level).

Fee revenues

Fees collected from citizens by institutions are institutional own revenues and are spent

on operations. Communal service fees are collected by the companies (in municipal ownership) which provide the service. Amounts, exemptions and reductions of fees in the education and social sectors as well as of public area usage, are regulated by a local decree.

Loans

In recent years Szentes has not really had to rely on loans. In contrast to other communities going through a loan crisis, Szentes does not oppose borrowing. At a certain stage of the landfill project it seemed that the city would help its resource deficit by borrowing. Generally, however, the own part, required for investments, is financed from assets sales rather than from borrowing. For instance, shares were sold in the Road 451 project (see more in the section on investments). When making the budget, the municipality cannot include investment loans because it would lose eligibility for the ÖNHIKI grant.

In the previous regime, Szentes took out a loan of HUF 10 million, of which the central government finances 70 percent and the municipality 30 percent. This debt will be amortized in 2002. In 1993 the local government took out a HUF 430 million investment loan for modernizing public lighting and has already repaid it. (Actually many local governments had taken out this investment loan and have repaid it from energy fees savings.)

Techniques of Financial Management

As evidence of how innovative the city is, in recent years two important measures have been made: the local treasury has been set up and program budgeting has been introduced. Szentes is one of the few municipalities that have changed banks. The balance of this change is having learnt some lessons rather than gaining actual benefits (at least on the short run).

Szentes, just like other municipalities, had had its accounts at OTP for a long time. However, in recent years competition between banks has strengthened and commercial banks have made much better offers to the local government than OTP. The local government started to think about switching to one of two eligible banks: UNIC which submitted a fair proposal and was ready to open up a branch in the city, or the Commerce and Credit Bank (K&H). The advantage of UNIC over K&H was that it had experience with municipalities. Nevertheless, the City Council picked K&H⁶.

The financial manager said that changing banks was a very complicated task due to

⁶ Probably because many members have their business accounts in that bank.



the number of clients and could be carried out only with the cooperation of OTP (a contract had to be signed that OTP would be willing to accept late payments etc.). Changing banks in Szentes was even more difficult as K&H had no previous municipal experience, procedures were cumbersome and there were established techniques to handle routine cases—routine at least from the municipal point of view (e.g., paying transfers without involving the municipality etc.).

The local government but has close financial relations with other banks besides K&H (for instance, UNIC and OTP.)

The Local Treasury

In Szentes the local treasury has been in operation since July 1996. The primary reason for setting it up was to collect interest revenues. As a first step, institution heads had to agree that the municipality be entitled to monitor their accounts on a daily basis (previously this was not possible and banks, under the excuse of bank secrets, often declined to give information to the finance department). All but two heads agreed immediately (the two were convinced by the financial department head's threatening them with daily audits). A computer terminal was placed in the mayor's office to monitor institution accounts. Institutions are required to submit every Friday their financial requests for the next week in a daily break down (in a revenues and incomes structure) and then the financial group head authorizes the bank to transfer the exact sum to institutions every day. Accounts must have a 0 balance at the end of each day.

Interviewees said that the treasury has made institutions more disciplined in their financial management. Earlier they had paid no attention to when their revenues had been collected (such as space rents) as the local government had paid their expenses. Though institutions recognize that the small treasury is good and helps them with their financial management, it must be acknowledged that this is encroachment on their autonomy. The finance department is trying to design a system of incentives (such as transferring to institutions a part of the interest revenues).

Program Budgeting

The budget document of the city changed substantially in 1997. The budget reform was stimulated by several factors:

The city had been struggling with extremely high operation costs without accurately seeing the exact costs of various services and activities.

It was recognized that in order to make well-informed decisions the City Council needs

better and more carefully developed proposals. Thus a type of budget was needed that explains requests as well as consequences of under funding.

Also they examined what activities could be abandoned without risking a decline in service quality.

They needed a planning method to avoid stop-gap operations.

The municipal staff thought that to address these issues a budget was needed that was more detailed and transparent than former ones. In 1997 a program budget was made for the communal sector, and in 1998 for the social sector. However, it is important to note that information on sectors not budgeted in a programmatic manner have become much more thorough. For instance, the education section in the 1997 budget included demographic data, offered solutions for problems, discussed the central-local resource sharing in detail, and presented per pupil costs in various institutions. Each institution's budget is headed by a brief description of the institution's services and activities as well as objectives to be financed from the budget.

Auditing and Reporting

In Szentes, a reporting system has been in operation for years, as required by law:

Reporting to politicians: Reports may be provided any time when required by politicians, but this most often happens at City Council or committee meetings. New initiatives are first discussed at committee meetings so that they are already known at City Council meetings. The process and method of reporting to politicians has remained practically unchanged.

Reporting to institutions: This is a two-way process. On the one hand institutions are required by the Council's budget decree to report monthly to the finance department, which in turn reports to the Council. On the other hand the mayor's office, though not required, reports to institutions on an on-going basis out of its own interest. The finance department head, as the link between institutions and the Council, is in a daily contact with the finance managers of institutions. The Mayor's Office reports to finance managers of institutions in this informal and very regular way, who in turn further the information to institution heads. Institution heads are convened only in cases when the finance department head thinks that finance managers in the institutions themselves would be unable to take care of the issue (would find opposition or would misinterpret it).

Reporting to departments: Although there is no formally required reporting procedure between departments, it is indispensable to smooth operation. As it is a small municipal

office, formal hierarchy is not always observed in reporting and cooperation. Often it is not the head of a certain department or group who is the most competent and the strongest person. The finance department head always finds the best partner by looking at the person. For instance, she works together with the head of the welfare group rather than with the head of the human policy department.

Reporting to citizens: There are absolutely no formal requirements for reporting to citizens and it is actually a weakness of the municipality although contacts have been sought increasingly year by year, which is reflected in the 1998 budget. Citizens may read budget reports, request information from Council members in their office hours and participate at public hearings. At public hearings people often thank the office for its work. When the 1997 budget document was published, someone asked about price and availability.

Panel discussions on specific topics (drug abuse, youth protection) are also popular.

The auditing system is about to be changed. With Szentes as its center, a sub-regional association will be established to monitor financial management. Participating communities are: Szentes, Szegvár, Nagymágocs, Árpádhalom, Fábánsebestyén, Eperjes, Derekegyháza, Nagytőke. A three-member team would carry out identified auditing tasks. Auditing would cover institutions as well. Setting up the association is necessary because all municipalities are required to perform auditing but have no special staff, so doing it as an association would be much more efficient.

INVESTMENTS

A basic issue, especially in the case of smaller cities that are in a more difficult situation, is to what extent the municipality is involved in boosting the economy of the city. Table 9 shows the overall position of the six cities included in the program concerning investments in general and concerning the role of government financing⁷ in the investments implemented in the cities. The table provides data from two years only, making it difficult to discern trends; but taken together, they still give very useful information about the city. It can be clearly seen that the two large cities (Szolnok and Tatabánya) attract more investment than the others both per capita and in absolute value. On the basis of per capita values Nagykanizsa and Orosháza are also strong in attracting capital. Püspökladány is in the worst

⁷ The figures in table 9 and the ones cited here are from the Central Statistical Office and refer partly to the total investments in the city, partly to the investments realized through municipality and central government financing. In the case of the six cities in our study, the latter nearly always means investments by the municipality and its institutions. In view of the differences between the ways data are collected in different places (definitions, etc.), these figures are not comparable to the ones provided by the municipality. They are to be studied in themselves.

position in all respects among the six cities. Although in Szentes the absolute and the per capita value of investments is lower than in the other four cities, the difference is not too large.

The proportion of the investments financed by the municipality and by the central government is different at the two different points in time in these cities. The two extremes are Püspökladány, where in 1993 practically there was no municipality investment and Orosháza, where in the same year the municipality (and central government) investments made up nearly 40 percent of the total investments. The proportion of municipality and central government investments was the highest in the case of Püspökladány and Nagykanizsa (27 percent) in 1996. The 10 percent in 1993 and the 14 percent in 1996 in Szentes is neither too much, nor too little. However, a municipality which wishes to make the economy of the city more dynamic should probably try to attract more resources to this area.

Table 9
The share of municipality and central government investments in the six cities

		Total	Municipal.	Total	Total	Municipal	Total	Municipal
		Million HUF 98		Thousand HUF 98/capita		Total		
Orosháza	1993	3,587.4	1,386.7	2,020.5	108.9	42.1	61.3	38.7
	1996	3,658.3	311.5	3,616.1	111.0	9.5	109.8	8.5
Szolnok	1993	14,939.6	937.7	13,710.3	190.3	11.9	174.6	6.3
	1996	11,328.5	2,405.3	9,021.1	144.3	30.6	114.9	21.2
Tatabánya	1993	5,450.6	887.7	8,074.1	75.5	12.3	111.8	16.3
	1996	16,337.6	2,643.4	3,982.0	226.3	36.6	55.1	16.2
Nagykanizsa	1993	6,326.8	494.8	8,257.1	120.3	9.4	157.1	7.8
	1996	3,914.0	1,061.2	3,980.7	74.4	20.2	75.7	27.1
Püspökladány	1993	371.1	0.3	360.8	22.6	0.0	22.0	0.1
	1996	319.7	87.1	311.5	19.5	5.3	19.0	27.2
Szentes	1993	1,749.9	180.7	1,528.2	55.4	5.7	48.3	10.3
	1996	2,326.4	346.9	2,588.9	73.6	11.0	81.9	14.9

Source: Central Statistical Office county almanacs, 1993, 1996

The investment needs of the city of Szentes are basically contained in the urban development program of the city. The budget of the city is prepared in two rounds. The first version contains a list of the investment needs many of which will be included in the final budget as investments that are planned but not scheduled to be implemented. In order for such investments to be implemented, a change in the priority of central allocations is needed. The financial and development experts of the municipality think that the decision on whether a project will be realized or not is 90 percent determined by the availability of central government financing for the given project. Serious demand or contributions by the households can justify

the implementation of a project only in 10 percent of the cases. Based on the figures of investments we can say that this statement is supported by the obvious change in the strategy of the city. Planned investments before 1996 accounted for 58 percent of municipality resources; this figure dropped to 30 percent in 1996-1997. The change in the actual development expenditures of the budget, however, can only be seen after one or two years (it had no impact on the figures shown in Table 22.).

Owing to the lack of their own resources, several communities are forced to implement central concepts instead of their own objectives. The Kurca program, the construction of the road no.451 or the renovation of the synagogue and above all the preparation of the urban development program show that Szentes does make efforts to implement projects that suit the needs of the city the best and provides considerable support for these from its budget.

The Structure of Resources of the Investments in Szentes

Although the value of the investments per capita made in the city of Szentes between 1993 and 1997 are below the figures in large cities or in communities with an expansive development policy, the difference is not too large⁸. On the one hand, this means that the city tends to rely on the careful use of its own resources in realizing its investment plans, and on the other it means that it cannot or does not want to supplement its own limited resources with other resources, such as grants. We were able to see how the investment strategy of the city is modified. In 1996 in Szentes decisions were made to pursue a considerable number of investments (chart 11.) and the composition of the resources in these cases was more favorable from the point of view of the municipality budget than in earlier years. In 1996-97 the number of investments on which the city made a decision was 1.5 times more than in the previous three years (at 1998 prices 2.4 billion HUF in contrast to the 1.7 billion HUF in earlier years) and the city allocated 300 million HUF municipality resources for these investments.

In the period between 1993 and 1998 (although there was a change in 1996) the value of per capita investments is the lowest among the six cities in Szentes.⁹ This is because most cities either spend more of their own resources per capita on investments (first of all the larger cities) or try to increase the amount of central resources in the project (Orosháza). The city of Szentes used mainly its own resources for the investments. Broadly, we can say that Szentes realized small investments relying on municipality resources only, while for larger investments,

⁸ We must note here that during this period there was a serious budget crisis both in Tatabánya and Orosháza, which meant a radical decrease in the investments for 2-3 years. It is also to be noted, that after the budget has been stabilized, the volume of investments practically returned to the former level.

⁹ These figures include the sum of the municipality resources spent on renovation and development.

they always received grants, which only make up only 13 percent of the investment expenditures.¹⁰ Therefore, in order to increase the volume of investments in Szentes with the present structure of resources, the city would have to provide the same amount of municipality resources as Tatabánya, a much more wealthy city, which could lead to the collapse of the city budget. The investment policy of Püspökladány, where the population is half the size of that of Szentes (16 thousand), is restricted, which shows that if a smaller city does not invest serious efforts in trying to win grants while trying to keep the budget in balance, it may have to do without significant municipality investments. In contrast, in Orosháza, which is the same size as Szentes, the volume of investments has been significant for a few years. After the consolidation of the budget in 1994-95, relying on a minimal level of municipality resources (often it provides its own resources through grants received through other applications), the city managed to reach a level that is above the per capita indicators of larger cities and to stay at this level on the long term. However, it is also important to see what these resources are spent on, whether there are areas where the municipality can significantly improve local conditions with the help of public funds. We will deal with these issues in the composition of investments according to different sectors.

Table 10
Accumulation and capital type expenditures in the six cities, 1993-98

	Population	Total investments	Central grants	Central grants/total investments	Total investments	Central grants	Own sources (with credit)
	In thousands	Million HUF at 98 value		Percent	Thousand HUF/capita at 98 value		
Orosháza	33	6,285	4,182	66.54	190.5	126.7	63.7
Szolnok	79	11,648	2,759	23.7	147.4	34.9	112.5
Tatabánya	72	9,536	1,118	11.72	132.4	15.5	116.9
Nagykanizsa*	53	7,609	1,740	22.9	143.6	32.8	110.7
Püspökladány	16	1,267	88	6.94	79.2	5.5	73.7
Szentes	32	3,582	475	13.26	111.9	14.8	97.1

Note: The figures between 1993 and 1997 are from the budget reports, the 1998 figures are estimates.

** In the case of Nagykanizsa there are no 1998 data available.*

¹⁰ If we consider only the investments, about which the municipality provided detailed financial information (e.g. the structure of resources, the beginning and end of the project, etc.) the requirement for the municipality's own resources was not around 90% but only 58%, in the case of investment decisions made between 1992 and 1997. On the whole, however, what matters is what financial burden it means for the city budget.

Chart 1

Total estimated cost of new investments by year and the actual expenses per year (at 1998 value)

(Missing)

National data (Chart 2) show that municipalities have tended to restrict their development gradually in recent times, first of all because the central government resources have continuously been decreasing. In the city of Szentes, however, where the per capita investments were below the national average in the early 90s, they exceeded the national average by the second half of the decade. Szentes was able to increase the level of its developments even at real value. This is illustrated by the fact that more than one-third of the investment expenditures between 1993 and 1997 was spent in the year 1997.¹¹ We can also see that although the municipality staff has the impression that whether a project is realized depends on the availability of central government resources, the central grants have only replaced the loans in the resource structure of the investments in the past two years. The fairly high share of municipality resources did not decrease; moreover, if we take the financial instruments received separate from the other local sources, we can see that the share of the municipality's own resources increased in the period between the years 1993-95 and 1996-97 (Table 2).

The discussions that took place during the preparation, in fact, show another side of this picture. The municipality staff is faced with the problem that in the case of the targeted subsidies granted it may happen that the project fails to materialize owing to the lack of the municipality's own resources. It can clearly be seen that the management of the city is trying to reduce direct municipality obligations. Areas with a poorer population did not have to contribute to the development of the sewage system. Now, the municipality organizes a water utility association, which makes it possible for the households to receive loans on favorable terms to the extent they also provide their own contributions. This will provide relatively inexpensive, subsidized and easily available investment resources for the sewage-system development program. The city chose this solution although they had some bad experience with this type of household loans because of the high level of debts experienced in the case of the first utility loans. But on the whole, the city still has to spend less on the project in this way than in a case when only municipality resources are used.

We think that this issue definitely needs to be considered in a broader framework. Very probably a multi-year plan for investment resources needs to be prepared to

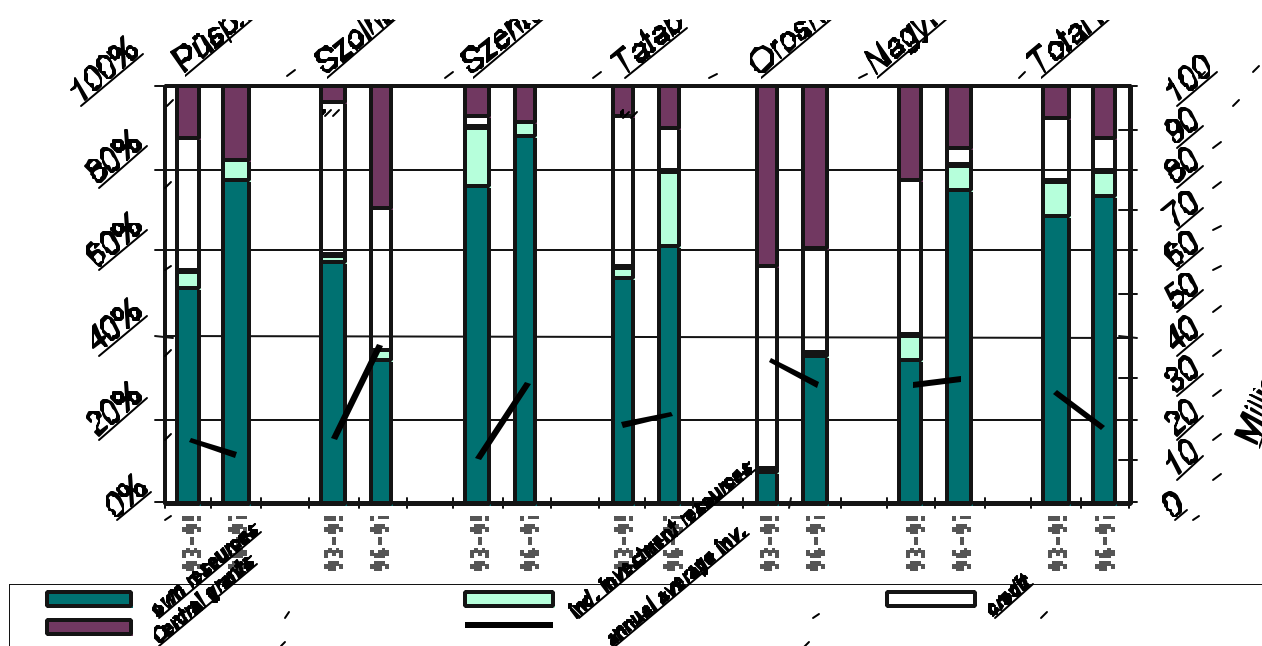
supplement the urban development plan. This would make it possible to plan the direct costs

¹¹ Taken at a comparable price

of the investments and the impact the project will have on the operation expenditures of the budget as well. A more comprehensive investment plan would also allow the management of the city to compare different scenarios for financing and costs incurred. The basis for this already exists in the form of investment plans approved in two steps, but further steps are definitely needed to provide the municipality with more elaborate investment plans, which show the expected consequences in more detail.

Chart 2

Changes in the composition of investments between the periods 1993-96 and 1996-97



The composition of investments according to different sectors

Although the city of Szentes makes use of a relatively low amount of non-municipality resources, it is important to see in which sectors the share of the municipality resources is higher and in which sectors more central grants are used (Charts 3 and 4).

If we compare the composition of the investments in the city of Szentes throughout the 1990s, the picture we get is not substantially different from the situation in most other Hungarian cities. This is probably due to an investment policy based on central principles

which neglect the infrastructure. This may be most characteristically expressed by the sewage system or gas network municipality projects that have been present in every city during the past decade. Landfills and by-passes are also a problem for several medium- and large-size cities. These roads can relieve the cities from some of the traffic and can boost the economy by improving transport conditions. In the period we examined, the city of Szentes has been continuously improving its bicycle roads. It paid more than 60 million HUF (at 1998 prices) for this purpose. The reconstruction of the city synagogue was no doubt an important investment in the 1990s, when the roof of the building was restored and a location was provided for the city library. Although the costs were lower than in the case of the largest investments (it cost 28 million HUF at 1998 prices), its significance for the city is shown by the fact that only local resources were used in the project.

Chart 3 shows the changes of emphasis in the investments of the city between 1993 and 1997. In addition to the synagogue project, in 1993 the city of Szentes allocated funds for the improvement of underdeveloped infrastructure systems (sewage and gas and drinking water wells). In 1994, beside the continuing sewage and gas project, the city began construction of the gymnasium, the largest investment of the city in 1995-96. The main investment in 1997 was the road construction. In 1996-97, a homeless shelter with a capacity of 40 was constructed and in two years about 100 million HUF at real value was spent on the construction of 38 social flats.

Chart 3
Composition of investments in Szentes by sector, 1993-97

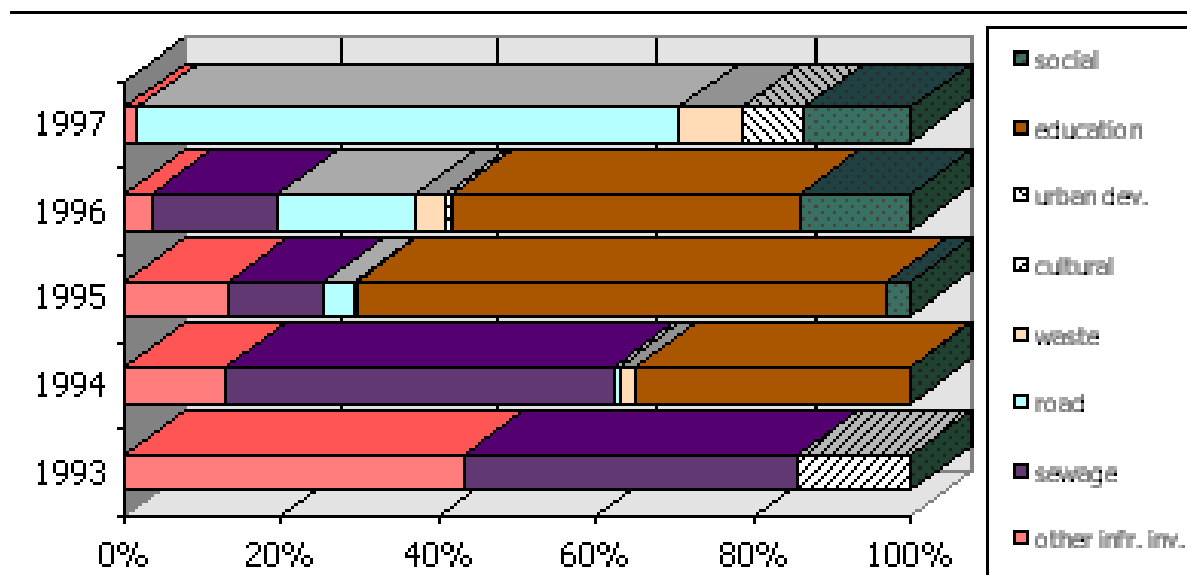
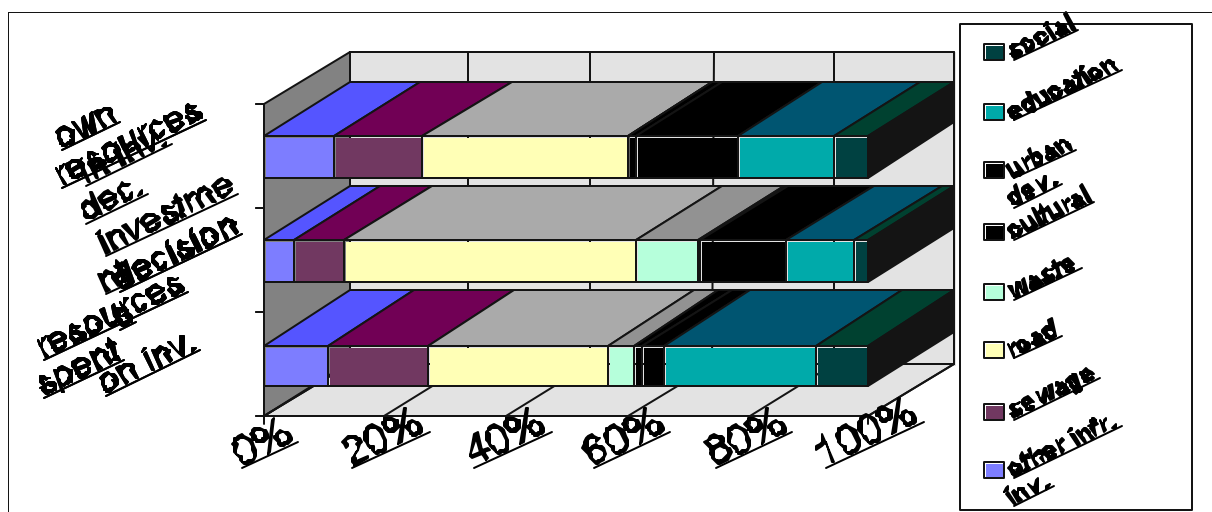


Chart 4

Composition of investments by sector, planned expenditures of own resources, and actual expenditures, 1993-97¹²

Between 1993 and 1997 road constructions had a special place among the investment decisions in the city of Szentes (they made up more than half of all the investments). Beside several other smaller or larger road construction projects, the largest is the number 451 bypass, which will cost an estimated 1.2 billion HUF (the project is described in detail in section 4.3.1.). As 80% of the costs are financed by the central road fund, the municipality's own resources has a smaller share. As the largest part of the project is implemented in 1998, road construction has a smaller share (30%) among the actually spent resources. The second largest investment of recent years is the dredging of the Kurca (a back-water of the River Tisza), the total costs of which are 1/3 of the costs of the by-pass. This project, in fact, involves improvement for an inner city area at the same time, making up 14% of the investment decisions and using 17% of the municipality resources used in projects implemented or launched in the years 1993-97 (the city planned to spend 290 million HUF at 1998 prices on the Kurca project). A similar amount of municipality funds is spent on the construction of the secondary school gymnasium and on

¹² Adding up the data on the annual investment decisions posed a serious methodological problem. In the case of these data it is difficult to decide which year they actually belong to. Finally we decided to consider them as if they were given in the value of the year of the decision. This is probably true in most of the cases.



the sewage system. Beside the construction of the bypass and the gymnasium and the dredging of the Kurca the fourth largest investment financed partly through municipality funds in recent years is the landfill. Actually, this is the largest continuous project; work began on it at the beginning of the nineties, counting the early stages of planning.

Description of a few larger investments

Big capital projects in Szentes are the renovation of the synagogue, building the landfill, dredging Kurca river and constructing Road 451. Appendix 7 lists all capital projects in the past five years, starting and finishing dates, total costs as well as share of various resources.

The Road 451 project

Road 451 is designed to draw traffic from the city center and from the 100 year-old bridge which takes detour traffic when the Tiszaúg bridge, on the way to Békés, is closed down. The normal capacity of the road going through the city is 10 thousand units/day. For the sake of comparison, that of the Győr road is 18 or 19 thousand/day. There were huge discussions about the route with most of the support going to the western route. In the last minute, however, an eastern route was adopted. The argument was that the western route would be constructed anyway (it passes by the industrial zone) and thus in time there will be a full ring around the city. This project had been on the agenda since the 1970s but has been dealt with seriously only since 1991 and 1992. The final push came in 1994 when the former Chairman of the Council was elected Mayor. The local government signed the contract with the central government in 1997. The city ensures the land (the HUF 200 million includes costs of purchasing plots) and the Road Fund transferred HUF 800 million in three portions. It would have been much more expensive for the contractor to take out a loan because the Road Fund disbursed resources in three portions, and bank interest rates were very high. Eventually the municipality undertook to advance the whole amount that the Road Fund would pay over time and thus reduced full costs from HUF 1800 million to HUF 1074 million. The tender was won by the County Csongrád Road Constructions Company. The project was started in March 1998 and is expected to be finished in late 1998.

One percent of investment costs has had to be set aside for archeological research. The diggings may cause the investor problems both in terms of money and time. Exceptionally valuable, 1500 or 2000-year old ruins and graves were turned up in the road construction. The excavation turned out to be more costly than expected (findings were deeper down than the obligatory excavation depth) and took more time. Given the city's plans concerning tourism, full excavation is promising.

Dredging the Kurca

The project is still under way. As a result, the bank of the stretch in the city center and the stream (river) itself will be clean, aesthetically improved and more attractive from the point of view of tourism. Fifty percent of costs are financed centrally. The municipality takes part in the project because it is very important for the city. Szentes had been thinking about making the Kurca, a Tisza backwater, a flowing river; this would cost about HUF 3 billion and would allow the city to create a 62 km-long resort area. In addition to Szentes, as main investor, Mindszent and Szegvár could participate in this project.

The garbage removal and landfill project

Waste disposal and disposition has a special place among the municipality services. Garbage removal can be profitable but the investment necessary to provide a place for dumping it is an especially heavy burden even in the case of large cities because of the special requirements. In order to cope with this situation, cities try to find central resources for the landfill. Cities generally try to keep the landfill in public ownership, as landfills have a great deal of strategic importance from the local point of view. In Szentes the existing landfill was full in 1990-1991 and its license expired in August 1991.

The tender. There was continuous and significant interest in the project from abroad. The negotiations neared the end several times, but always fell through because of disagreement on the expected amount of the rises in the fees. Those who showed an interest in the first period made an offer which involved raising the prices to a level 4-5 times as high as the current fees. In 1993 this was not accepted by the municipality. In 1995 the new local government and the new Mayor made an invitation for tenders, concerning garbage removal only. The applications were discussed by the level of committees according to the regulations on public services. Finally the tender was won by the City Management institution of the municipality, which handed in its application together with the county service company. The contract was to be made for 5 years. Opposition members contend that a municipality institution could not even have applied. According to the original ideas a development fund was to be made from the fees.

The fee. The fee used to include only the costs of removal and provided no resources for disposing of the waste and rendering it harmless. The fee was raised from 92 HUF to 180 HUF in February 1992, but they did not make use of the possibility of automatically raising the fee after that. The consortium headed by the City Management institution raised the fee first in the year after they won the tender but afterwards did not make any further use of this possibility. Consequently their profit, which was 24 million HUF in 1996, can be expected to drop to 13 million in 1998.



Planning and contracts. While other applicants were willing to provide a landfill, the decision of the municipality meant that it took the responsibility for implementing the project and it remained under direct municipality control. Permission plans were prepared by the end of 1996 (construction plans were already ready in the summer).

Meanwhile a financial plan was also prepared. Banks also showed an active interest in the project and a financial scheme was prepared to work together with one of them. On the basis of this scheme, the bank was to provide financing for the construction of the landfill and the fees were to provide the collateral.

At the end of 1996 the municipality invited a closed tender for 5 to 6 companies (Hídépítő Rt, Mélyépítő Rt, STRABAG, regional construction companies, etc.). Finally, no one winner was announced, but the least expensive offer for each phase was selected.

Financing. In late 1996 or early 1997 the planned bank loan scheme failed and the municipality applied for various central grants to provide resources. By late 1997 resources were put up from grants (targeted grant, Central Environmental Fund) and garbage removal fees.

The landfill, which will have a capacity of 60 thousand m³, will cost 425 million HUF at 1998 prices. Thirty percent of the costs will be financed by targeted subsidy, 40 percent by the Central Environmental Fund and the remaining thirty percent will come from the TEK1. In this way no direct municipality funds will be used, which is an unprecedented in Szentes.

The project. In light of this, a new tender was issued but only firms participating in the previous one were invited. The argument was that these firms had once already put their cards on the table and it would be unfair to involve new tenderers. Previous offers were refurbished according to the new technical content (based on the permission procedure). This time the tender was issued by the Council. The Council adopted the project in the budget and has to deal with it only in case that the costs exceed those previously approved. Background work related to the tender was done by the municipality and no outside experts were hired. Tenders were reviewed in a negotiating (so-called open or fast) procedure to accelerate the process. The procedure had to be fast because the landfill is next to an army ammunition stock and often catches fire.

At 1998 prices the city spent nearly 13 million HUF in 1996 and around 45 million HUF in 1997 on the project, which is expected to be finished in 1999.

Regional cooperation. A co-investment contract was signed with the city of Csongrád

in connection with the landfill investment but this cooperation effort subsequently failed. Szentes cooperates only with Nagytöke in a landfill project.

Opinions of the opposition. The opposition Council member mentioned the following problems in relation to the project: only the mayor and the firm(s) possess important information; the mayor only the draft of the contract and not a project documentation submitted to the Council. The closed tender made at the end of 1996 and the subsequent discussions were secret. The staff at the Mayor's office and the members of the Council did not know of anything. Only one official was allowed to take part apart from the Mayor. The committees were informed about the state the preparation of the project was in only when a decision was made after the negotiations had been finished. The project to be carried out ensures waste disposal only for 6 years; garbage removal is financed from a different grant so neither its cost is not included in the fee, nor recultivation costs of the current landfill. This member of the Council thinks that it was a serious mistake not to have an open tender, which would have helped lower costs since, when the final tender was designed in 1996, a market competition was already in existence. Furthermore, options for a selective collection are not integrated in the system.

The lessons to be learnt from the landfill project. According to Hungarian experience, disposing of waste is an extremely difficult problem for municipalities, probably because of the very high capital requirement. Probably, there is no perfect solution. The Szentes project may as well serve to illustrate all the mistakes that can happen during landfill projects. The municipality had to face the need for the project as early as at the beginning of the nineties and was also aware that it would require a radical rise in the fees. The Council at that time did not take the political responsibility. It took nearly six years until the contract was signed. First, they thought that the fees are to be raised 4 to 5 times as much as they were. This, however, failed to materialize, although the financial obligations of the households have been increased several times. Making use of the grants and the investment fund that was collected from fees, the project was finally realized without relying on municipality resources.

According to the uniform opinion of the municipality staff and the opposition member of the Council was talked to, this investment was very important for the local formed following the 1994 elections. The final project plan was the product of two or three years' intensive negotiations and background work. The opposition Council member, although admitting the obvious merits of the project, claimed that it lacked greater transparency.



REGIONAL COOPERATION

Regional cooperation is important not only in auditing but also in other areas. Out of a range of associations and organizations, the *Csongrád-Szentes Regional Association* requires mentioning. Its goal is to promote tourism in the region. Csongrád city has been dealing with improving tourism for eight years. The Association is growing in addition to the two cities now has Bugac, Kiskunfélegyháza, and Ópusztaszer as members (the Ópusztaszer Memorial Park Public Use Company is managed by the Csongrád County Government). Kiskunfélegyháza, from the neighboring county Bács-Kiskun, joined upon seeing the success of the program. Neighboring small communities will also probably join: Nagymágocs (Count Károlyi Castle), Derekegyház (favorite hunting place of János Kádár, long time Prime Minister and Secretary Chief of the Communist Party after whom the previous regime is named). Szeged's relation to the association is controversial, it is concerned about its hegemony in the region. The Hungarian Tourism Co. helps the initiative by providing trainings.

This association encompassing several communities can be the host of a long term tourism program. The association designs and coordinates the tourism profile and products of the communities and performs other marketing activities. Plans on tourism in Szentes are more or less hindered by the lack of necessary infrastructure (see next section).

The investment needs of the city of Szentes to boost tourism

According to the head of the Sports and Tourism Center, certain background institutions to tourism are priority investment needs. The city needs a hotel, a good quality restaurant and a thermal water bath. Currently there is no hotel at all in the city and there is only one camping site in the sports center with chalets. A hotel project seems to be very far in the future and theoretically is feasible from municipal and/or business resources. However, as he himself mentioned, in Kiskunmajsa there is no hotel but some 30 or 40 caravans camp there attracted by the bath. The thermal water bath project could be carried out from municipal and central resources. Currently they are putting together the application documentation for central grants. In a municipal (the city provided the land) and business joint effort a new restaurant is being built in the city park.

According to the head of the institution responsible for the tourism program in Szentes, promoting tourism might be a chance for south-east Hungary, largely deprived of the benefits of big investments, to break out. Nevertheless, these communities do not have the capacity to carry out efficient marketing. Sub-regional development increase the demand for local intellectuals. Representatives of the communities have agreed on a division of priorities: Csongrád would be concerned with the Kőrös river and the old city, Szentes with sports, the thermal bath and pre-seasonal vegetable growing (also founded on thermal springs). In Szentes the TV tower can be refurbished as a tourist sight. Creating

and strengthening a regional consciousness is important. Earlier, Szeged, a state within the state, drained intellectuals away from smaller communities, and now is envious of and not cooperative with the more flexible association¹³.

As for other cooperation efforts, one with Csongrád to operate a landfill has failed. However, much has been done, and the two cities will succeed in another effort to operate a waste water treatment plant. One reason why cooperation may work is that the person who currently is in charge of managing tourism promoting activities in Csongrád used to work in Szentes and this personal contact may break the "my house is my castle" attitude.

Szegvár wishes to build an incinerator for which it needs the agreement of Szentes, which it will probably not get as the landfill, with an underused capacity, is in Szentes.

A joint association with Nagytöke has been operating since May 1996 to provide primary and secondary education within the jurisdiction of the two communities.

Agreements with twin cities in Germany, Spain, Austria and Yugoslavia etc. have been concluded. Dutch cities have a special fund to create twin cities cooperation with Eastern European cities. The cooperation includes senior (for adults in the areas of know-how transfer, sports and cultural events) and junior (for young people in the areas of leisure time, language learning and getting each other know) programs. Besides tourism, these contacts have economic importance: the Dutch have great experience in channel dredging and may help in the project of dredging the Kurca river; contacts with Yugoslavian cities may ensure businesses in Szentes an access to the Adriatic sea.

CONCLUSIONS

In conclusion we can characterize Szentes as an *open and innovative city, which has a careful financial management strategy* (in the positive sense of the word). It reacts promptly to the new and new restrictions, which can be explained partly by flexible management (competent, professionally acknowledged Mayor and charismatic financial management) and partly by the fact that the opportunities to gain revenues are not completely used.

Like everywhere else, the number of functions to be performed increases year by

¹³ When an Austrian firm wanted information, the association returned information on various programs while the big city did not manage to send any information in several weeks.



year and the proportion of central transfers decreases. The new services in recent years are all mandatory (which means that the municipality did not start new services on its own initiative). The municipality responded to the changing conditions partly by organizing the institutions more rationally (restructuring or abolishing them) and partly by using new types of its own resources. The city's taxation policy can be said to be typical; it levies local taxes only when really necessary. As privatization revenues decrease and as costs increase, the city will soon feel the pinch of the resulting tensions. They are planning to change fees rather than raise local taxes to address this problem.

This taxation policy is the cornerstone of the financial management strategy we termed as "careful" and has the following economic decisions as its other components:

The city transfers to the county any tasks that do not serve local interests only and that The city cannot surely perform

It tries to retain all the function (contracting out services only to companies in 100 percent municipality ownership)

Aims at eligibility for the ÖNHIKI grants each year

Has close financial relationships with several banks

At the same time the municipality and especially the financial department can be termed as highly innovative and open to all kind of new techniques to increase the discipline of financial management, monitor the distribution of funds and reduce wasted efforts. This is proved by the fact that Szentes was among the first cities to set up a local treasury and program budgeting and its elements are used in more and more areas each year.

Measuring performance, however, which is an important component of program budgeting, has not yet been properly worked out. Still, there are certain efforts: both the 1997 and the 1998 budget contains indicators that can be considered as suitable bases for the preparation of a more comprehensive system of measuring performance.

The investment policy of the city with its strengths and weaknesses, is an integral part of the overall policy of the city. The investment policy of Szentes is very careful and restrained. This is seemingly contradicted by the fact that the city implemented its investments using mainly its own funds without relying on outside resources. The city already made use of central government resources to implement its larger investments in the early 1990s. This trend was strengthened in 1996-97 and in general, Szentes makes



better use of the opportunities of central grants available through applications. Partly owing to the changes in the composition of the investments (a higher number of large investments is under way in the city, for example the by-pass or the landfill) and in contrast to earlier practice, the investment decisions of recent years has a substantially lower share of municipality resources.

Besides making use of grants the city also relies on local businesses (through decrees on business activity) and the contribution of households again (there were attempts at the beginning of the decade to finance sewage developments directly through public water utility associations and indirectly by raising the fee for garbage removal). The share of loans, which was relatively low anyway, has been almost completely eliminated and the municipality's own contributions come from the privatization revenues of the city, which in Szentes's case means selling securities. Characteristically, the city does not even privatize the institutions that are operated in the forms of an enterprise in other cities. Accordingly, no capital was brought in even in the case of investments, where it would have been possible. The most serious step taken in privatization was letting the cinema for rent in 1998.

APPENDICES

Appendix 1

Institutions providing municipal services

- 1 Nursery
- 1 Day care center
- 1 High school
- 4 Secondary vocational schools
- 1 Hostel for secondary school students
- 5 Kindergartens
- 1 Hostel for primary school pupils
- 1 Family center
- 1 Movie
- 1 Library
- 1 Music school
- 1 Primary health care institutions
- School lunch kitchen
- City Management
- Sports center
- Fire department
- Assistance Center for the Homeless

Appendix 2

Mandatory and non-mandatory services in Szentes

MANDATORY SERVICES	NON-MANDATORY SERVICES
Provision of healthy drinking water Ensuring kindergarten education Ensuring primary education Ensuring primary health care Ensuring primary welfare care Ensuring street lighting Maintenance of local public roads Maintenance of the public grave yard Ensuring ethnic minority rights	Ensuring primary musical education Ensuring secondary education Ensuring adult education Provision of special education Ensuring sewage Ensuring students' hostels Urban development Urban landscaping Housing management Ensuring local transportation Ensuring local water management Ducting of precipitation water Ensuring public and community cleanliness Fire prevention Ensuring child and youth care Ensuring public education and supporting arts Supporting sport activities Veterinarian service Promoting agriculture Renovation in institution buildings Asset management

The two set of responsibilities are identified on the basis of the budget law.

Appendix 3

Revenue structure in the education sector

	1997			
	Expenditure	Own revenue	Normative	Difference (support from the municipality)
Kindergartens	172,181	6,339	69,217	96,625
Deák primary school	47,241	1,177	24,125	21,939
Damjanich primary school	41,586	1,267	16,100	24,219
Klauzál primary school	82,208	2,723	41,563	37,922
Petőfi primary school	60,629	2,876	26,410	31,343
Kosztá primary school	74,493	2,671	38,048	33,774
Berekháti primary school	20,985	323	9,022	11,640
Lajtha music school	25,612	2,110	14,042	9,460
high school	70,780	4,057	42,982	23,741
Borosw economic vocational school	61,008	9,714	37,578	13,716
Pollák technical vocational school	54,144	8,354	28,040	17,750
Bartha Gardening vocational school	90,316	31,312	29,325	29,679
Zsoldos F. technical vocational school	101,315	26,852	71,038	3,425
Total	902,498	99,775	447,490	355,233

Resource structure in the social sector

Service	Expenditure	Own revenue	Municipal support (total)	Municipal support (normative)
Nursery school	22,754	3,175	19,794	4,288
Elderly Care	66,330	15,264	51,120	
Homeless	2,282			
Family Care	36,410			
Total	127,776			

Appendix 4

Municipal revenue estimates in 1998 (HUF thousand)

Description	1996 actual	1997 expected	1998 estimate
Current revenues			
Institutional revenues from basic activities	137,947	110,321	128,301
Other institutional revenues	211,161	237,150	222,527
Interest revenues	86,549	21,033	8,265
Total current revenues	435,657	368,504	359,093
Investment and capital revenues			
Assets and value of immaterial goods			
Sales of properties	40,491	8,202	1,08,234
Unique municipal investment and capital revenues			
Sales of municipal housing	33,421	18,895	20,026
Sales of municipal non residential units	2,496	1,883	1,000
Rents from municipal housing and commercial units	44,636	45,116	56,950
Privatization revenues	375,924	268,202	
Sales hunting rights	1,123	179	
Dividends	509	912	
Sales of securities	194,247	217,993	
Investment and capital revenues total	692,847	561,382	186,210
Unique municipal revenues			
1. Current unique municipal revenues			
Local taxes - business	179,793	277,983	250,000
- Tourism			640
- Communal	14,167	20,400	20,000
- Other	126		
Local taxes	20,437	21,312	25,000
Personal income tax	187,029	200,797	212,478
Environmental fine	186	1,803	
Rents from municipal housing and commercial units			28,000
Municipal budget support			
Normative central transfers	647,364	739,137	729,859
Earmarked central normative transfers			10,918
Targeted subsidy	41,870	459	71,870
PIT supplement	25,970	84,837	110,246
PIT transfer for community management	58,157	60,659	61,587
PIT transfer for social and child welfare services			128,866
Centralized items	168,171	66,754	
Other central grants	6,456	484	
ÖNHIKI (grants for municipalities in disadvantageous position due to non-own fault)	20,000	55,000	
Contingency		8,073	
Unique municipal revenues total	1,369,726	1,537,698	1,649,464
Other revenues			
Supports, supplements, resources taken			
Funds taken for operation	70,647	112,425	45,517
Funds taken for health care	29,176	32,149	31,734
Funds taken for investment	18,436	115,590	309,440
Fund residue from previous year	102,397	300,507	130,634
Support for the fire station	54,711	66,391	87,836
Other revenues total	275,367	627,062	605,161
Loans			

Description	1996 actual	1997 expected	1998 estimate
Operational resource deficit		31,459	149,333
Loans total	0	31,459	149,333
Evening out, suspending and transit revenues	37,831		
Total revenues	2,811,428	3,126,105	2,949,261

Appendix 5

Normatives for the municipality in 1998 (HUF thousand)

Description	Per capita normative	Central transfer (HUF/capita* index)
Community management, communal, sports services	1,200	39,302,400
Area administration		4,000,000
Area administration (guardianship authority)	130	6,257,680
Area administration (constructions authority)	70	3,110,100
Social and child welfare basic services	933	30,557,616
Family center, child welfare services	300	9,825,600
Cash and in-kind social and child benefits		31,422,572
Home and temporary shelter.	292,000	1,460,000
Social day care	60,000	16,200,000
Temporary institutions for homeless	120,200	9,135,200
Nursery school	161,000	5,796,000
Kindergarten education		
- 30 or more hours/week	67,000	68,943,000
- Less than 30 hours a week	33,500	5,963,000
Schools		
- Regular grades 1-6	72,000	119,952,000
- Grades 1-6	14,400	72,000
- Regular grades 7-8	75,000	40,050,000
- Private tutoring grades 7-8	15,000	105,000
- Vocational training activities grades 9-10	68,000	25,160,000
- Vocational public training activities grades 9-10	76,000	5,776,000
- High school grades 9-10	76,000	16,036,000
- Regular vocational secondary grades 9-10	76,000	33,440,000
- Vocational secondary grades 9-10	15,200	1,991,200
- Regular vocational training grades 11-13	70,000	15,470,000
- High school grades 11-13	96,000	22,080,000
- Regular vocational secondary grades 11-13	96,000	58,272,000
- Vocational secondary private tutoring grades 11-13	19,200	19,200
- Corresponding vocational secondary grades 11-13	19,200	2,092,800
Hostel for kindergarten children	135,500	406,500
Hostel for primary school pupils	135,500	3,929,500
Hostel for vocational training school students	135,500	5,149,000
Hostel for high school students	135,500	13,821,000
Hostel for vocational secondary school students	135,500	15,176,000
Hostel for vocational training school students	67,750	67,750
Fee for hostel for vocational secondary school students	67,750	135,500
Primary arts education		
- 4 or more lessons per week	45,000	11,745,000
- Fewer than 4 lessons per week	22,500	4,320,000

Description	Per capita normative	Central transfer (HUF/capita* index)
Other public education supports		
- Social, learning behavioral disorders	3,200	390,400
- Children coming from other communities	10,500	1,449,000
- Institution management association	12,000	252,000
- Meals organized for kindergartens	13,700	13,809,600
- Meals organized for primary schools	13,700	30,605,800
- Meals organized for vocational training schools	13,700	493,200
- Meal organized for high schools	13,700	1,904,300
- Meals organized for vocational secondary schools	13,700	6,247,200
- After school care in primary schools	3,800	4,522,000
- After school care in primary schools (ethnic minority)	7,600	1,018,400
Supplementary support for public education		
- special classes for Gypsy pupils	24,000	600,000
- Ethnic primary school with few pupils	20,000	500,000
- Ethnic pupils living in hostel	10,000	30,000
- Primary school library	2,200	4,840,000
- Vocational training school library	2,200	1,465,200
- High school library	2,200	970,200
- Vocational secondary school library	2,200	2,512,400
Vocation training in school		
- Apprenticeship in vocational training school grades 9-10.	45,000	6,120,000
- Apprenticeship in vocational training school grades 11-13.	45,000	2,835,000
- Theoretical education in vocational sec. School	100,000	9,500,000
- Practical skill teaching in	45,000	4,275,000
- Corresponding education in vocational sec. School	20,000	240,000
30 or more hours	130,000	650,000
Special care in kindergartens not more than 29 hours	65,000	130,000
Local community education services	32,752	18,177,360
Total		740,776,678

Appendix 6

Centralized items required by the city

1993

- Utility improvement subsidy
- Subsidy for space saving cremation burial
- Subsidy for district heating supplement
- Income supplement for unemployed
- Child raising benefit
- Compensating for central wage policy measures
- Support for pupils and students to buy school book
- Offsetting the VAT effect
- Support for oil heated homes

1994

- Utility improvement subsidy
- Subsidy for space saving cremation burial
- Supplement for child raising aid
- Income supplement for unemployed
- Child raising benefit
- Compensating for central wage policy measures
- Support for pupils and students to buy school books
- Supplement for minimum wage
- Support those compensated for limiting their personal freedom

1995

- Utility improvement subsidy
- Subsidy for space saving cremation burial
- Supplement for child raising aid
- Income supplement for unemployed
- Child raising benefit
- Compensating for central wage policy measures
- Support for pupils and students to buy school books
- Compensation for former victims of political repression
- Support for oil heated homes
- Support for the local minority council
- Support for the local municipal fire station
- ÖNHIKI grant (Support for municipalities in disadvantageous position owing to non own fault)
- Support for neutralizing liquid waste
- Contribution to create a workshop for the education of apprentices
- Support for child and youth protection services

Offsetting the impacts of stabilization measures
Offsetting the impact of wage increase due to including working years before 1992

1996

Utility improvement subsidy
Supplement for child raising aid
Income supplement for unemployed
Child raising benefit
Compensating for central wage policy measures
Support for pupils and students to buy school books
Compensation for victims of political repression
Support for oil heated homes
Support for the local municipal fire station
ÖNHIKI grant (Support for municipalities in disadvantageous position owing to non own fault)
Support for neutralizing liquid waste
Support for child and youth protection services
Offsetting the impact of wage increase due to including working years before 1992
Support for institution management associations
One time wage policy measures
Support for medicine costs
Contribution for reducing staff

1997

Utility improvement subsidy
Income supplement for unemployed
Child raising benefit
Support for pupils and students to buy school books
Support for the local municipal fire station
ÖNHIKI grant (Support for municipalities in disadvantageous position owing to non own fault)
Support for neutralizing liquid waste
Support for child and youth protection services
Support for designing education programs
Support in contingency cases
Support for a one time wage supplement in the social sector
Subsidy for teachers to buy profession-related books
Contribution to reducing staff
Contribution to create guardianship authority agencies and to their operation
Support for teachers' training and retraining
Support for improvements (computerization in schools)